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DIRECTORATE OF
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24 July 1968

STATE review(s) completed.

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Approved For Release 2003/05/29 : CIA-RDP79T00975A011700060001-5

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No. 0216/68
24 July 1968

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【South Vietnam】 The slightly increased tempo of combat activity this week has been concentrated in the northern provinces with scattered actions elsewhere.

In addition to the coordinated enemy rocket and mortar attacks around Da Nang, Communist forces have shelled US field positions southeast of Hue and the provincial capital city, Quang Ngai. The attack on Quang Ngai included several ground probes against military and civilian targets in the city and in nearby district towns. All the probes were repelled with minor losses on both sides.

These actions are not included in the latest weekly battle statistics, which reflect some rise in enemy-initiated incidents and casualties for the period ending 20 July. The levels, however, are still consistent with the over-all lull in the fighting which is evidenced by a further decline in allied casualties.

* * * *

Wide publicity is being given to letters supposedly written to President Thieu and Ambassador Bunker by the widows of six South Vietnamese officers killed in an accidental US rocket attack in early June. The letters call the officers' deaths "mysterious" and imply that they may be related to a weakening of US resolve in South Vietnam. The US Embassy suspects that they may be the work of some heavy-handed supporters of Vice President Ky who tend to view their current eclipse as part of a design to foist a coalition government on Saigon.

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[USSR-Czechoslovakia: Moscow yesterday again stepped up the pressure on Prague, this time in preparation for the talks between the Soviet politburo and the Czechoslovak presidium.

Izvestia yesterday announced a massive rear services exercise to take place in most of the western USSR, including the Carpathian Military District adjacent to Czechoslovakia. The exercise, probably the largest of this type to take place since July 1961, is clearly designed to bolster the position of the politburo in its confrontation with the Czechoslovak leadership.

Izvestia carried the announcement of the exercise alongside a notice of the politburo members' decision to go to Czechoslovakia for talks with their Czechoslovak counterparts. Neither Moscow nor Prague has indicated that a time or site for the meeting has been set. The Yugoslav news agency TANYUG, however, reported yesterday that the politburo had already left Moscow. The report has not been confirmed or denied by any other source but TANYUG is usually accurate on such matters.

Along with its latest threatening military moves, Moscow stepped up its propaganda against Prague. The Soviet military organ Red Star attacked General Prchlik, the Czechoslovak party official in charge of military and security affairs, for his criticism of the Warsaw Pact command structure at a press conference a week ago. Izvestia weighed in with a veiled attack on the Czechoslovak minister of the interior, reprinting a letter charging him with complicity in the political trials of the 1950s. According to unconfirmed news reports, among the demands in the Soviet note reportedly handed to the Czechoslovaks on 22 July was one that certain officials be removed from power.

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[It is still unclear how many members of the Czechoslovak presidium will participate in the discussions with the Soviet politburo. Prague has yet to acknowledge officially that all 11 would join their Soviet counterparts, and a presidium member stated on 22 July that only six members from both sides would attend the meeting. A Western news service reported yesterday, however, that "knowledgeable" sources in Prague said the Czechoslovaks had "virtually" agreed that the entire presidium would be present.

The Soviets desire that the entire Czechoslovak presidium be included in the talks, presumably because they hope one or more of the Czechoslovaks will waver in the face of Soviet pressure. Various factions are represented in the presidium, and some members reportedly favored accepting the earlier Soviet proposal to attend the Warsaw summit meeting. They eventually acquiesced in the final decision not to go, however, and since then the nationwide support given to the leadership has strengthened the presidium's resolve and unity.

A Czechoslovak journalist told Western diplomats on 23 July that the Soviet note delivered on 22 July dealt with the arms cache found in Czechoslovakia. He asserted that in the note Moscow did not propose stationing Soviet troops in Czechoslovakia. Yesterday, however, the commander of Czechoslovak border guards defended Prague's ability and willingness to protect its borders with West Germany. This suggests at least that Czechoslovak officials are alert to the possibility that the Soviets may present arguments concerning Czechoslovak defense capabilities to justify the stationing of Soviet forces in the country.

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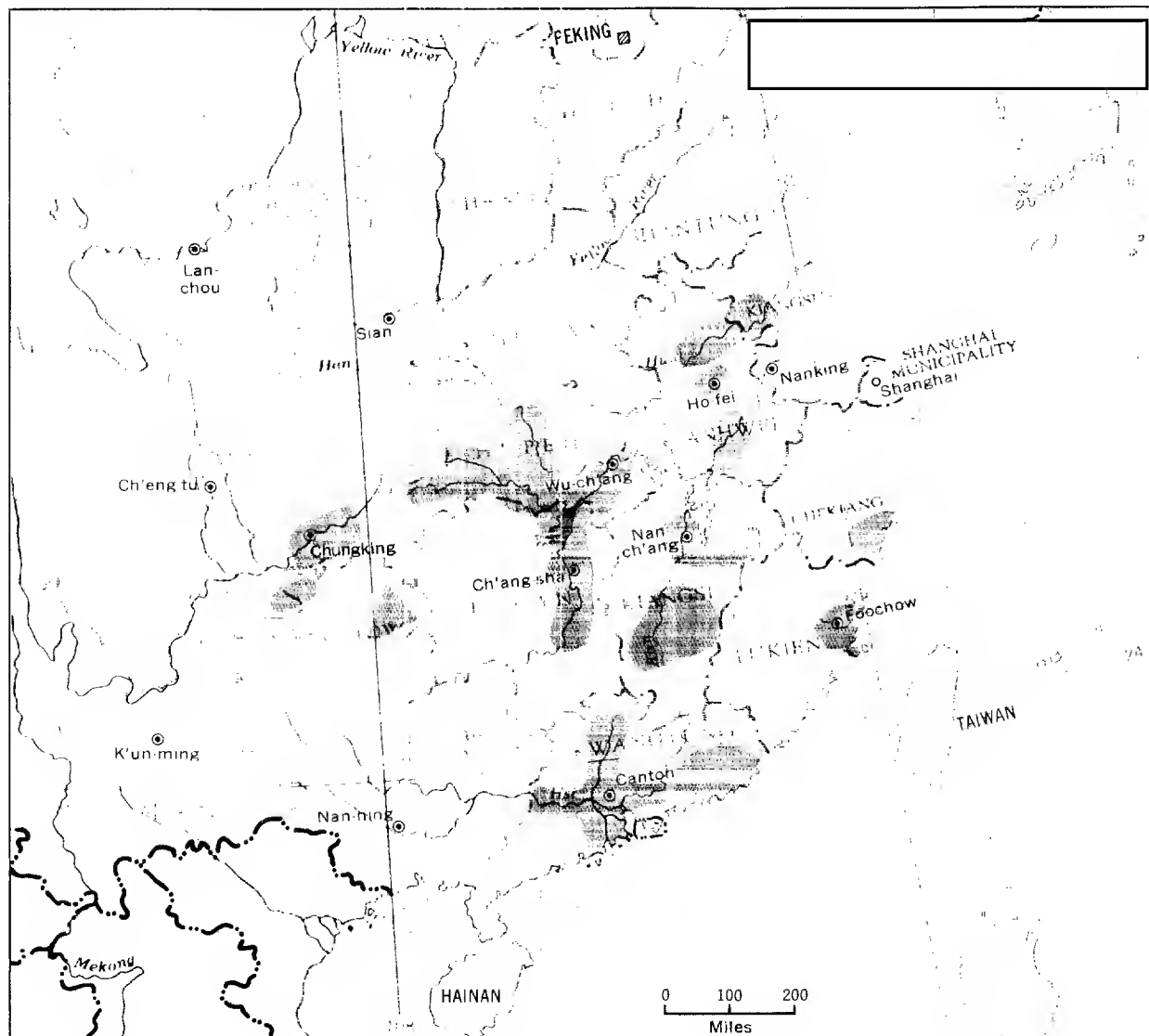
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Communist China: Areas Where Flooding Has Been Reported Since Mid-June



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Communist China: Flooding after a spring of poor weather has ended all chances for a good early grain harvest.

Heavy rains since mid-June have flooded or threatened to flood progressively larger areas of central and south China. Kwangtung, Kiangsi, and Fukien provinces have borne the brunt of the rains so far, but as of late July, the Yangtze, Huai, Kan, and other large rivers were reported over the danger markers and continuing to rise.

It is too soon to estimate how much damage has been done to the 25 million tons of early rice that were ready for harvesting when heavy rains began. The press reports large-scale mobilization of personnel to protect dikes and widespread relief flights. Some crop losses, however, appear inevitable, and the effects on the year's total grain harvest will be compounded by a probable delay in planting the next crop.

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Iraq: The new regime now seems to be a coalition of at least three groups, with the Baath Party adherents in a minority.

Although information is still fragmentary, the strongest of the groups seems to be that led by Abd al-Razzaq al-Nayif, the deputy director of military intelligence who has just been named Prime Minister. Al-Nayif is said to have been the leader of a group of unknown, politically inexperienced, youthful army officers calling themselves the "Arab Revolutionary Movement."

Al-Nayif's group apparently allied itself with a group of relatively conservative, senior army officers led by Abd al-Aziz Uqayli, who has been a well-known "hawk" on the Kurdish issue. The two military groups seem to have turned to the moderate wing of the Baath Party in order to attract broader representation and civilian participation.

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There are already signs of friction between Prime Minister al-Nayif and some of the Baathists. [redacted] al-Nayif has moved to neutralize the Baath National guard--a Baathist civilian paramilitary organization--by making it known that any civilian carrying a weapon will be imprisoned.

[redacted]

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CHILE



Area Severely
Affected by Drought

Area Moderately
Affected by Drought

Chile: The worst drought in 100 years is adding to the government's difficulties with its stabilization program.

Rainfall in the northern part of the agriculturally important Central Valley is only 20 percent of normal this year, and snowfall in the Andes, on which Chile depends for summer irrigation, has been very light.

The drought has resulted in a reduction in hydroelectric power output in central Chile which is cutting copper production there. Livestock losses are already substantial because of inadequate forage, and the government has established food relief programs in the hardest hit northern provinces.

Unless heavy rain and snow fall during the remainder of this winter, Chile may have to double its food imports, which amounted to over \$125 million last year. Such an increase, on top of the expenditures for drought relief and the expected decline in copper revenues, would intensify inflationary pressures and balance-of-payments problems.

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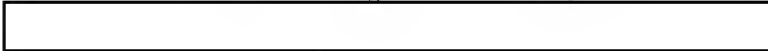
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Bolivia: The political crisis stimulated by accusations of treason against ex- Minister of Government Arguedas appears to have subsided.

Some 40 leaders and members of the political opposition have been arrested under the state of siege declared on 22 July, and there has been no repetition of the violent demonstrations that broke out last Saturday. President Barrientos has named the chief of the national guard to head the Ministry of Government, but the plans reported earlier for a major cabinet shake-up have not been implemented.

In Chile, Arguedas has admitted that he passed Che Guevara's diary to the Cubans, but Chilean authorities question his whole story. They announced yesterday that he would soon be released "at the border of his choosing." Meanwhile Cuban spokesmen have said Havana may offer Arguedas asylum.



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Rhodesia: Despite continued economic sanctions, Rhodesia's economy performed well during the first half of 1968. Output in the manufacturing, mining, and commercial sectors rose, and over-all economic gains were held back mainly by a decline in agricultural production caused by a severe drought. Employment has also increased. African employment was up by about 7,000, and the number of Europeans, Asian, and Colored job-holders rose by more than 3,000. Moreover, domestic exports during the first half of the year increased by 3.6 percent over the same period last year, and imports rose by about 9 percent, mainly because of a demand for equipment needed for development projects. [REDACTED]

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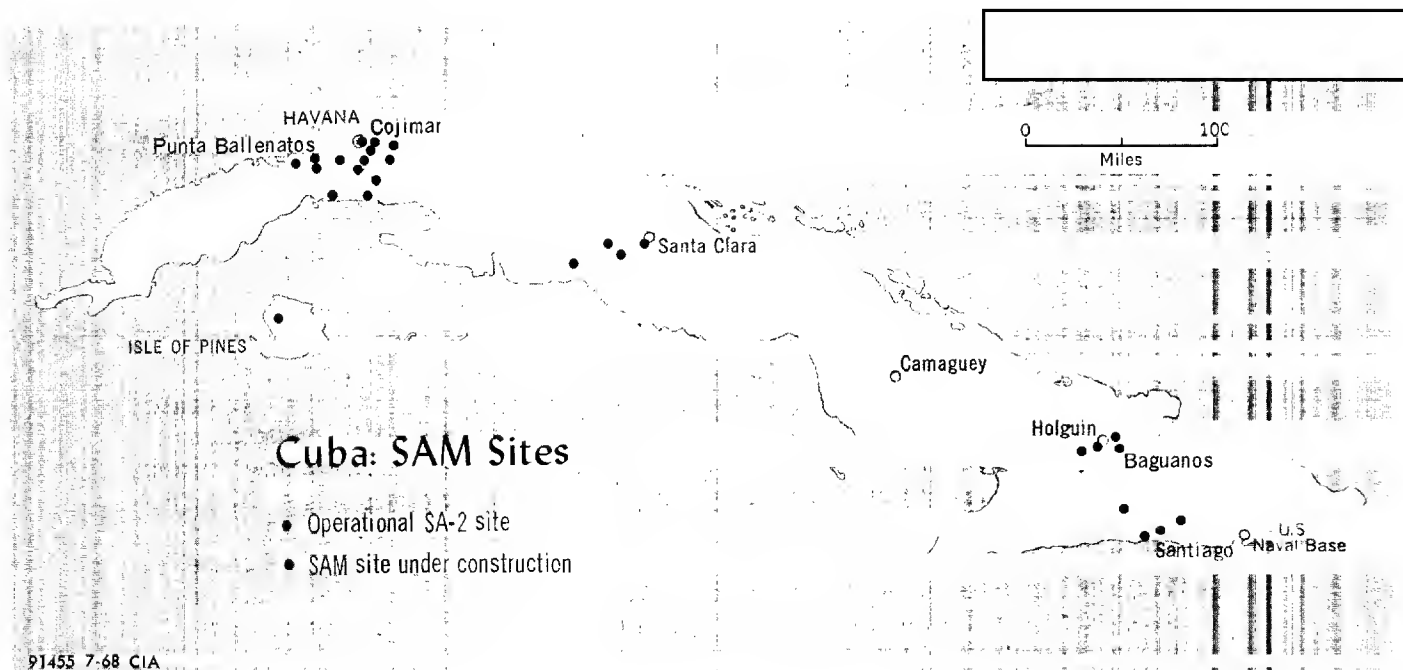
Sierra Leone: The internal political situation has not settled down since the overthrow of the former military regime in April. Conditions within the virtually leaderless army remain bad. The army commander, unable to inspire the loyalty of his troops, is said to have asked to be relieved of his command. All efforts by the fragile and erratic government of Prime Minister Stevens to establish control over the mutinous troops have failed. Meanwhile, the national police are hard pressed to control continuing outbreaks of civil disturbances upcountry as Stevens' supporters take revenge on enemies. [REDACTED]

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Cuba: Aerial photography [] shows a new SA-2 surface-to-air missile site under construction at Baguanos in eastern Cuba. Three other sites are still under construction at Santiago, Cojimar, and Punta Ballenatos. These four and the 23 operational SA-2 installations have all been photographed since 12 June. No significant change in Cuba's air defense capability has been observed. []

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Uruguay: A 64-percent increase in the cost of living during the first six months of 1968 has led the government to declare a temporary wage-price freeze and to seek legislation restricting wage increases and labor agitation even after the present limited state of siege is lifted. The wage freeze has filled a crucial gap in the stabilization program, which also calls for tight credit controls and reduction in the budget deficit. If the price spiral had been permitted to rise at the recent rate, it would have reached 168 percent for this year--a record for Uruguay and close to the Latin American record established by Bolivia in the mid-1950s. []

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